Company report

Telecoms, Media & Technology
IT Services
Equity – India

HSBC Global Research

Polaris Software Lab (POL)

Initiate OW(V): Growth momentum to pick up further

- **Polaris's modular product portfolio is well positioned to leverage the pick-up in discretionary spending**
- **Growth is likely to surprise on the upside and trigger re-rating**
- **The stock trades at an undemanding PE of 6x our FY11e EPS, ex-cash. We initiate with an OW(V) and a TP of INR235**

We initiate with a positive outlook on the company. We believe Polaris will witness accelerated growth due to its high exposure (more than 90%) to the banking sector (BFSI), in which discretionary spending is picking up. Polaris is uniquely positioned to benefit, as its product offerings are modular, and clients can cherry-pick products. This is evident in the expanding order backlog of the past few quarters. Furthermore, we believe product sales provide only a foot in the door of a client, leaving significant opportunities for Polaris to mine through its IT services. Overall, we expect revenue and EBITDA growth to pick up at a FY10-12 CAGR of c14% after a decline in FY10. While margin decline is a sector-wide concern in FY11, the company could recover profitability faster than its peers, due to an expected ramp-up in the products business, which is higher margin than IT services.

Polaris's modular product portfolio positions it favourably to leverage growing demand. Our channel checks suggest a pick-up in discretionary spending in areas such as internet/mobile/device banking and niche solutions, such as cash management, portal, wealth management, transaction banking products/solutions, etc. We believe this could be particularly beneficial for Polaris (a) because of its high exposure to the BFSI market and (b) because, unlike its competition, it offers modular products, targeting specific bank requirements. The products are designed on service oriented architecture (SOA), which can be easily integrated into clients' existing core banking solutions.

Re-rating warranted. We expect stronger top-line and EPS FY10-12 CAGRs of c14% and c19% (versus consensus of c11% and c15%) and initiate with an OW(V) on the stock, with a one-year target price of INR235. At our TP, the stock is valued at a FY12e PE of 11x. This is a 50% discount to Infosys and in line with the historical average. The current discount of c18% to the mid-cap IT sector (8.2x vs 10x on FY11e EPS), seems unwarranted, as the company is better positioned today than in the past few years. Investments in the Intellect Suite are through, and the product is getting traction in the market, helped by a strong demand backdrop. The multiple contraction seen in 2008/09 due to high exposure to the troubled BFSI sector should unwind further as growth accelerates.

Financials	Revenue (INRm)	y-o-y	EBIT margin	EPS (INR)	y-o-y	P/E
FY10e	13,494	-2.1%	13.8%	15.2	14.7%	10.6x
FY11e	15,160	12.3%	12.7%	19.6	28.9%	8.2x
FY12e	17,420	14.9%	13.7%	21.5	9.6%	7.5x

Source: HSBC estimates

Index^	BOMBAY SE IDX
Index level	15,922
RIC	POLS.BO
Bloomberg	POL IN

Source: HSBC

Enterprise value (INRm)	10661
Free float (%)	31
Market cap (USDm)	342
Market cap (INRm)	15,866

Source: HSBC

Overweight (V)

Target price (INR)	235.00
Share price (INR)	160.50
Potential total return (%)	49

Mar	2009a	2010e	2011e
HSBC EPS	13.24	15.18	19.57
HSBC PE	12.1	10.6	8.2

Performance	1M	3M	12M
Absolute (%)	-12.7	-3.7	212.0
Relative^ (%)	-4.0	1.9	88.5

Note: (V) = volatile (please see disclosure appendix)

12 February 2010

Yogesh Aggarwal*
Analyst
HSBC Securities and Capital Markets (India) Private Limited
+91 22 2268 1246
yogeshaggarwal@hsbc.co.in

Anil Kumar Tulsiram*
Analyst
HSBC Bank plc
+91 80 3001 3749
anilkumartulsiram@hsbc.co.in

View HSBC Global Research at: http://www.research.hsbc.com

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/qualified pursuant to NYSE and/or NASD regulations

Issuer of report: HSBC Securities and Capital Markets (India) Private Limited

Disclaimer & Disclosures
This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it

Financials & valuation

Financial statements

Year to	03/2009a	03/2010e	03/2011e	03/2012e
Profit & loss summary (INRm)				
Revenue	13,779	13,494	15,160	17,420
EBITDA	2,335	2,204	2,312	2,787
Depreciation & amortisation	-388	-347	-389	-405
Operating profit/EBIT	1,947	1,857	1,923	2,382
Net interest	-454	-107	386	375
PBT	1,506	1,750	2,310	2,757
HSBC PBT	1,506	1,750	2,310	2,757
Taxation	-208	-248	-370	-634
Net profit	1,307	1,495	1,928	2,113
HSBC net profit	1,307	1,495	1,928	2,113
Cash flow summary (INRm)				
Cash flow from operations	2,421	2,573	1,581	2,013
Capex	-355	-250	-455	-523
Cash flow from investment	401	-474	-246	-279
Dividends	-344	-350	-451	-494
Change in net debt	-2,571	-1,783	-883	-1,240
FCF equity	2,248	2,445	1,512	1,865
Balance sheet summary (INRm)				
Intangible fixed assets	199	501	501	501
Tangible fixed assets	2,157	2,203	2,269	2,387
Current assets	7,756	8,745	9,876	11,549
Cash & others	3,400	5,212	6,095	7,335
Total assets	10,305	11,645	12,830	14,611
Operating liabilities	2,509	2,768	2,654	2,948
Gross debt	70	98	98	98
Net debt	-3,330	-5,114	-5,997	-7,236
Shareholders funds	7,727	8,779	10,078	11,565
Invested capital	4,204	3,469	3,897	4,154

Ratio, growth and per share analysis

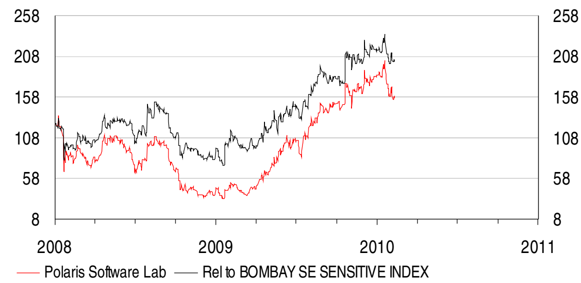
Year to	03/2009a	03/2010e	03/2011e	03/2012e
Y-o-y % change				
Revenue	25.3	-2.1	12.3	14.9
EBITDA	97.5	-5.6	4.9	20.6
Operating profit	169.7	-4.6	3.6	23.9
PBT	68.6	16.2	32.0	19.4
HSBC EPS	78.7	14.7	28.9	9.6
Ratios (%)				
Revenue/IC (x)	3.0	3.5	4.1	4.3
ROIC	44.5	49.3	52.7	53.3
ROE	18.3	18.1	20.4	19.5
ROA	14.0	13.7	15.8	15.4
EBITDA margin	16.9	16.3	15.3	16.0
Operating profit margin	14.1	13.8	12.7	13.7
EBITDA/net interest (x)	5.1	20.6		
Net debt/equity	-43.1	-58.2	-59.5	-62.6
Net debt/EBITDA (x)	-1.4	-2.3	-2.6	-2.6
Per share data (INR)				
EPS reported (fully diluted)	13.24	15.18	19.57	21.45
HSBC EPS (fully diluted)	13.24	15.18	19.57	21.45
DPS	2.75	3.04	3.91	4.29
Book value	78.29	89.13	102.31	117.41

Valuation data

Year to	03/2009a	03/2010e	03/2011e	03/2012e
EV/sales	0.9	0.8	0.6	0.5
EV/EBITDA	5.3	4.8	4.2	3.1
EV/IC	3.0	3.1	2.5	2.1
PE*	12.1	10.6	8.2	7.5
P/Book value	2.0	1.8	1.6	1.4
FCF yield (%)	14.3	15.5	9.6	11.8
Dividend yield (%)	1.7	1.9	2.4	2.7

Note: * = Based on HSBC EPS (fully diluted)

Price relative



Source: HSBC

Note: price at close of 11 Feb 2010

Contents

HSBC

Investment Summary

- Our positive view is driven by a robust growth outlook and an undemanding valuation
- IT demand from the BFSI sector is likely to remain robust, and Polaris's modular product portfolio is well positioned for leverage
- We initiate with an OW(V). The stock trades at 6.0x on our FY11e EPS, ex-cash, and offers c49% upside on our TP of INR235

Like most other mid-cap IT companies in India, Polaris was impacted by the recent downturn, resulting in revenue losses in FY10. However, at this point of the business cycle, we see accelerated growth for Polaris, driven by its unique positioning to benefit from the demand up-tick from the BFSI sector. Polaris's product portfolio, in our view is well suited to leverage the niche demand areas from the banking sector, as highlighted in the following section. Overall, we expect revenue and EBITDA growth to pick up at a CAGR FY10-12 of c14% after a decline in FY10. While margin declines are a sector-wide concern in FY11, the company could recover profitability faster than its peers due to an expected ramp-up in its products business, which is higher margin than IT services. Furthermore, the stock is trading at undemanding PEs of 6x and 5x our FY11 and FY12 EPS estimates (excluding cash) and at EV/EBITDA multiples of 4.2x and 3.1x.

Robust demand outlook

- **Focused discretionary spending is picking up.** We see banks in developed markets (particularly the mid-size) opening their discretionary purse-strings. The incremental spending is focused on areas of business such as wealth management and cash management, in which they envisage growth and are likely to gain market share.
- **BFSI market is expanding.** The number of bank accounts in the US has shown consistent growth at a 7% CAGR in the past five years, and larger banks are increasing their IT spend on growing the number and scope of channels to engage and service clients, such as Internet/ mobile/device banking. This offers growth opportunities for product companies in the areas of portals and transaction banking.
- **APAC.** While banks in developed geographies have been ahead of the curve in adopting technology and offshoring, emerging market banks are increasingly seen as moving in this direction. Incremental IT spend will not only be driven by the regional local banks, but also global banks go-to-market in the emerging economies offer noteworthy opportunities to the IT industry. There are c1,100 banks in Middle East and Africa (MEA).

Polaris is well positioned to leverage a strong market

Polaris's modular product portfolio is well suited to benefit from banks' demand for new services in developed markets. We see robust demand areas such as cash management, wealth management, and payments, in which Polaris has a strong product portfolio. The company can likely capitalise on its strong presence in the APAC region and leverage the LaserSoft presence in India, where public sector banks are increasingly looking to modernise their IT infrastructure.

Improving backlog and deal wins by the company are indicative of the growing traction in the market. We also expect annual maintenance revenues to harden in the coming quarters as Intellect installations achieve critical mass.

Forecasts

With this positive backdrop, we expect a top-line FY10-12 CAGR of c14% versus consensus of c10%. EBITDA growth may might trail top-line growth due to margin pressure from wage inflation and utilisation declines. However, earnings growth is likely to remain strong, at a FY10-12 CAGR of c19%, due to favourable hedging.

Attractive valuation

The stock is trading at a PE of 8.2x/7.5x on our FY11/12e EPS. However, we estimate cash per share of INR 61 and 73 in FY11 and FY12. Excluding cash, the stock is trading at a PE of 6x and 5x on FY11/12e EPS.

We initiate with an OW (V) on the stock, with a one-year TP of INR235. At our target price, the stock is valued at a PE of 11x on our FY12e EPS. This is at a 50% discount to Infosys and in line with the historic average.

Historically, Polaris has traded at a 50% discount to Infosys and at a c2% discount to its mid-cap peer group (*Mid-cap peer group includes Hexaware, Mindtree, Polaris, KPIT Cummins, Infotech Enterprise, Rolta and Patni*).

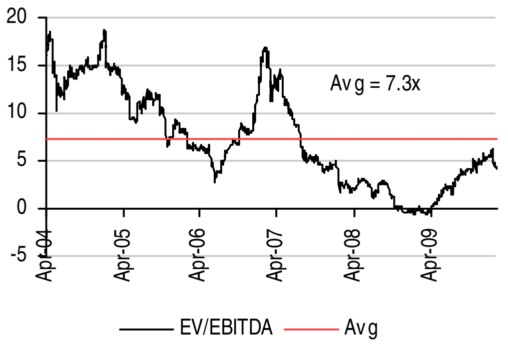
We believe, the company is better positioned today (compared with the past few years), as investments in the Intellect Suite are through and the product is getting traction in the market. In light of these positive developments and strong demand under-currents, we believe the discount of c18% to its mid-cap peers is unwarranted and the stock could re-rate as it continue to deliver on the expectations.

One year forward multiple: Mid cap peers premium /(discount) to Polaris

Year	KPIT	Hexaware	Patni	Infotech	MindTree	Rolta	Average
2004	48%	NA	6%	33%	NA		**16%**
2005	2%	NA	-8%	12%	NA	63%	**5%**
2006	11%	-17%	-16%	-8%	NA	35%	**0%**
2007	-13%	-3%	-9%	-17%	-45%	-13%	**-14%**
2008	14%	31%	5%	-20%	-28%	-42%	**-6%**
2009	35%	-9%	-8%	-1%	-20%	7%	**-4%**
YTD10	NA	6%	-20%	-8%	-25%	-10%	**-12%**
8-Feb-10	NA	10%	-27%	-25%	-23%	-15%	**-18%**
5 yr avg/since listing	9%	1%	-6%	-6%	-29%	1%	**-2%**

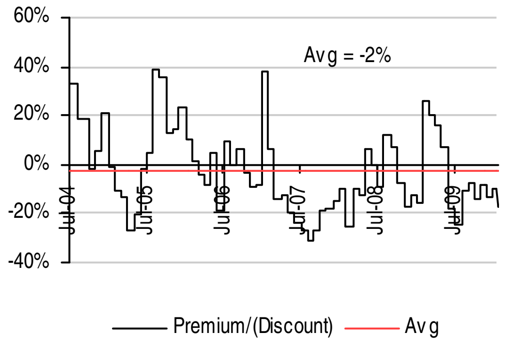
Source: Datastream, HSBC

One year forward EV/EBITDA trends



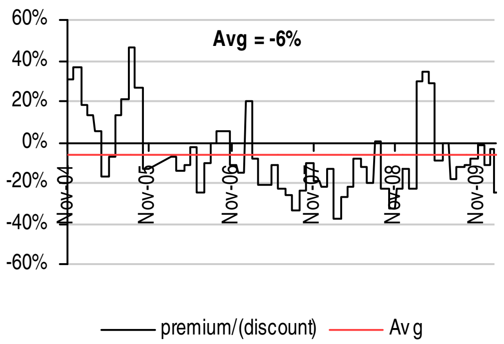
Source: Datastream, HSBC, company report

Relative valuation trends (12-mth Fwd PE): Polaris is currently trading at c18% discount to its mid-cap peers



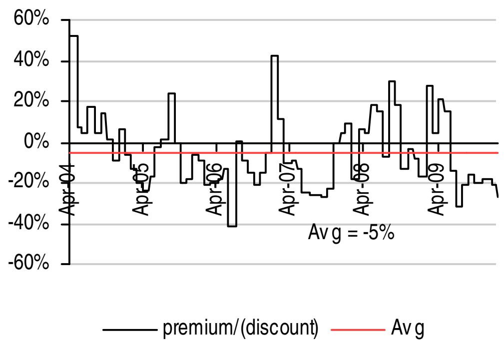
Source: Datastream, HSBC

Relative valuation trends (12-mth Fwd PE): Polaris currently trades at a discount of c25% to Infotech compared with 5 year average of 6%



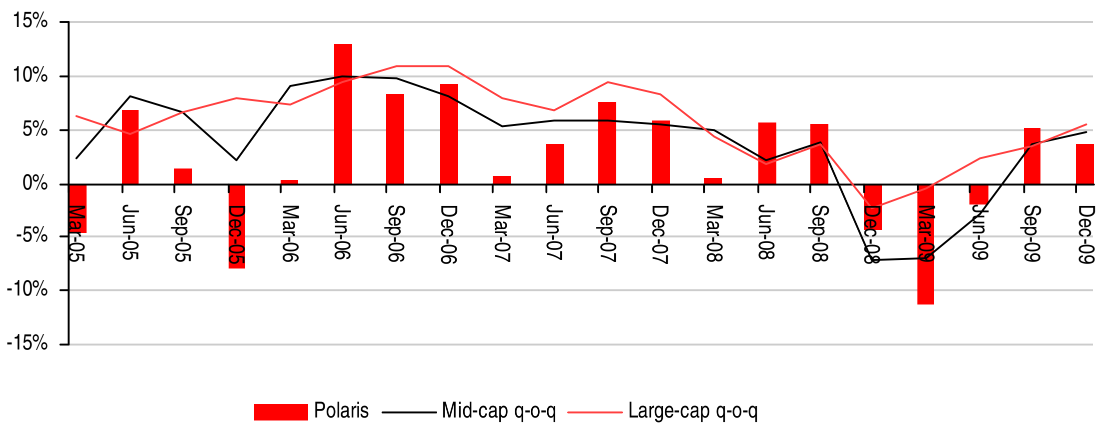
Source: Datastream, HSBC

Relative valuation trends (12-mth Fwd PE): Polaris currently trades at a discount of c27% to Patni compared with 5 year average of 5%



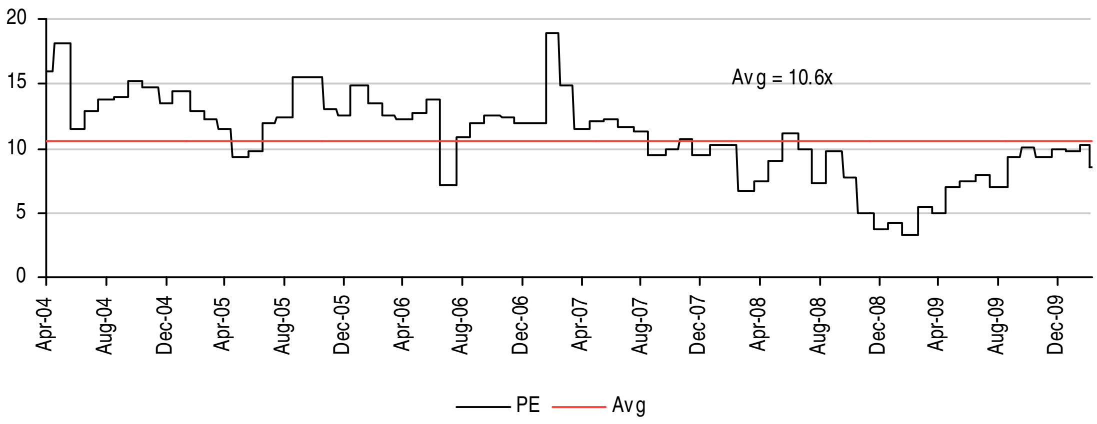
Source: Datastream, HSBC

Quarterly performance: In the past 20 quarters, Polaris q-o-q top-line growth outperformed mid cap peers 9x and large cap peers 5x



Large cap = Infosys, TCS, Wipro and HCL Tech Mid-Cap = Patni, Polaris, NIIT Tech, Infotech Enterprises, KPIT Cummins
Source: Company report, HSBC,

One year forward PE of Polaris



Source: Datastream, HSBC

Valuation summary: Mid-cap peers

	Price	Mcap (USDm)	Mcap (INRm)	EV/sales FY10	EV/sales FY11	EV/sales FY12	EV/EBITDA FY10	EV/EBITDA FY11	EV/EBITDA FY12	PE FY10	PE FY11	PE FY12	CAGR 10-12E Sales	CAGR 10-12E EPS	EBITDA margin FY10e	EBITDA margin FY11e	EBITDA margin FY12e
Polaris	161	342	15,866	0.9x	0.8x	0.6x	4.8x	4.2x	3.1x	10.6x	8.2x	7.5x	13.6%	18.9%	16.3%	15.3%	16.0%
Hexaware	73	226	10,530	0.8x	0.7x	0.7x	4.5x	4.8x	4.4x	8.0x	7.6x	6.1x	6.9%	14.2%	16.8%	15.2%	15.0%
Infotech	326	388	18,046	1.6x	1.3x	1.2x	8.7x	7.9x	7.0x	12.1x	11.3x	10.2x	15.3%	8.7%	17.8%	17.0%	16.8%
Mindtree	574	489	22,716	1.7x	1.5x	1.2x	9.2x	7.9x	6.4x	11.4x	10.8x	9.9x	19.0%	7.4%	19.1%	18.9%	19.2%
Mphasis	734	3,312	153,993	3.6x	3.2x	2.8x	13.7x	12.5x	10.7x	17.0x	15.8x	14.7x	13.2%	7.6%	26.4%	25.6%	26.3%
Patni Computer	491	1,363	63,376	1.5x	1.4x	1.3x	7.8x	7.7x	6.9x	13.0x	13.9x	13.8x	9.5%	-2.8%	19.2%	16.6%	16.0%
Rolta India	182	630	29,295	1.4x	1.2x	0.9x	6.7x	5.4x	4.5x	11.7x	9.6x	8.0x	21.7%	21.0%	20.3%	21.7%	20.6%
Average				**1.3x**	**1.2x**	**1.0x**	**7.1x**	**6.5x**	**5.6x**	**10.8x**	**10.0x**	**8.9x**	**14.2%**	**11.4%**	**18.3%**	**17.8%**	**17.8%**

Notes: Hexaware year-end is Dec; Patni FY10-12 = CY09-11e; Mphasis FY10-11e refers to years ended Oct09 to Oct 11; prices as of 7 February 2010
Source: Patni, MT, MphasiS ,Tech Mahindra and Polaris are HSBC estimates, others are consensus from Datastream

Valuation summary: Large-cap peers

	Price (INR)	Mcap (INRbn)	Mcap (USDm)	EV/sales FY10	EV/sales FY11	EV/sales FY12	EV/EBITDA FY10	EV/EBITDA FY11	EV/EBITDA FY12	P/E FY10	P/E FY11	P/E FY12	CAGR 10-12E Sales	CAGR 10-12E EPS	EBITDA margin FY10e	EBITDA margin Y11e	EBITDA margin FY12e
Infosys	2,498	1,434	29,439	5.9x	5.0x	4.2x	17.0x	14.4x	12.3x	23.1x	20.4x	17.4x	18.4%	15.3%	34.7%	34.5%	34.3%
TCS	743	1,453	29,840	4.7x	4.0x	3.4x	16.5x	14.4x	12.3x	21.5x	18.9x	16.6x	17.8%	13.8%	28.5%	28.0%	27.5%
Wipro	656	957	19,654	3.4x	2.9x	2.6x	15.9x	14.4x	13.2x	21.1x	19.2x	17.4x	14.2%	10.1%	21.7%	20.5%	20.0%
HCL Tech	349	235	4,827	2.0x	1.7x	1.5x	9.3x	8.1x	6.9x	19.1x	13.2x	11.3x	15.5%	44.4%	21.4%	21.2%	21.1%
Average				**4.0x**	**3.4x**	**2.9x**	**14.7x**	**12.8x**	**11.2x**	**21.2x**	**17.9x**	**15.7x**	**16.5%**	**20.9%**	**26.6%**	**26.1%**	**25.7%**

Source: Datastream , HSBC estimates; prices as of 11 February 2010

Demand market

- Demand from the BFSI market should remain robust…
- …driven by higher IT spending on newer areas of servicing customers, mid-tier banks gaining market share and secular technology adoption in emerging markets
- Polaris is poised to leverage its modular product portfolio

Banking and financial services

We remain positive on the IT demand outlook from the BFSI market. While offshoring remains a robust theme for the larger and now smaller banks globally, we see larger banks increasingly spending on newer areas to engage with their customers and mid-size banks spending to develop and offer new services for their customers.

Underlying growth intact, despite consolidation

While the number of financial institutions has declined over the past 25 years, the industry has grown consistently. The number of banking accounts in the US has grown at a CAGR of 7%[1] 2004-09, notwithstanding a continuous decline in the number of financial institutions. For banks, this has further resulted in demand for newer ways and areas to engage and service customers, such as internet, mobile and device banking, resulting in demand for IT services/solutions such as portals and global transaction banking.

1 Source: Federal Deposit Insurance Corporation (FDIC)

Mid-size banks set to grow stronger and spend more on IT

Mid-size banks are gaining traction, resulting in demand for bolt-on/modular solutions.

- **Mid-size banks are attracting a higher percentage of new accounts,** which is resulting in increased spend on IT. According to industry data, c55% of mid-size banks in the US saw new deposit accounts increase and 51% saw customer deposits increase. Six out of 10 are increasing marketing budgets compared with only 25% of the large bank segment and 41% are increasing IT spend on a y-o-y basis. According to Celent Research, the small to mid-size banks in the US (defined as USD750m-15bn in assets) are profitable and less affected by toxic assets. Banks with USD1-10bn in assets have grown from 341 to 424 in number, according to Celent.
- Mid-size banks are offering new services and cross-selling new products to clients, such as wealth management and cash management which requires new IT solutions/products.
- These banks are increasingly adopting outsourcing or offshoring to cut operating costs. We have seen mid-size banks looking

for shared services to achieve scale-driven cost efficiencies (for instance, lending cost of a tier-2 bank in the US is three times the lending cost for a tier-1 large bank due to economies of scale).

Emerging market opportunity

While banks in developed geographies have been ahead of the curve in adopting IT and further outsourcing IT operations, emerging market banks are increasingly seen as the next adopters of IT and outsourcing. We are seeing regional banks as well as global banks entering the emerging economies, offering noteworthy opportunities to the IT industry. There are c1,100 banks in MEA.

What it means for Polaris

Polaris addresses the end-to-end requirements of core banking through its Intellect 10.0 suite. However, according to our conversations with industry experts, Polaris's core competencies are its modular approach and the ability to provide bullet products and solutions for niche demands of customers.

Modular product portfolio to support client mining[2] and new client wins

In particular, our channel checks suggest Polaris's strength in its cash management, liquidity, wealth management and lending solutions. This is in contrast to some of its larger established competitors – these may dominate the core banking market, but find it cumbersome to provide niche/modular solutions to banks.

Polaris competes with global product companies such as Oracle Financial Services, Temenos, Infosys and FiServ in the products business. However, we believe these large products vendors find it cumbersome and less profitable to sell modular functionalities, and try to push end-to-end product suite to the banks. Most banks, particularly the smaller banks enhancing functionalities are in need of specific solutions and do not prefer to buy suites. Polaris modular product portfolio therefore is a preferred option for such requirements. Furthermore, Polaris products are SOA (Service Oriented Architecture) designed and can be easily integrated to the existing core banking solution of banks.

Considering Polaris's competitive strength and the backdrop that core banking solutions are very sticky and banks rarely opt for rip-and-replace for core banking software, Polaris's strategy to focus on modular solutions is creditable.

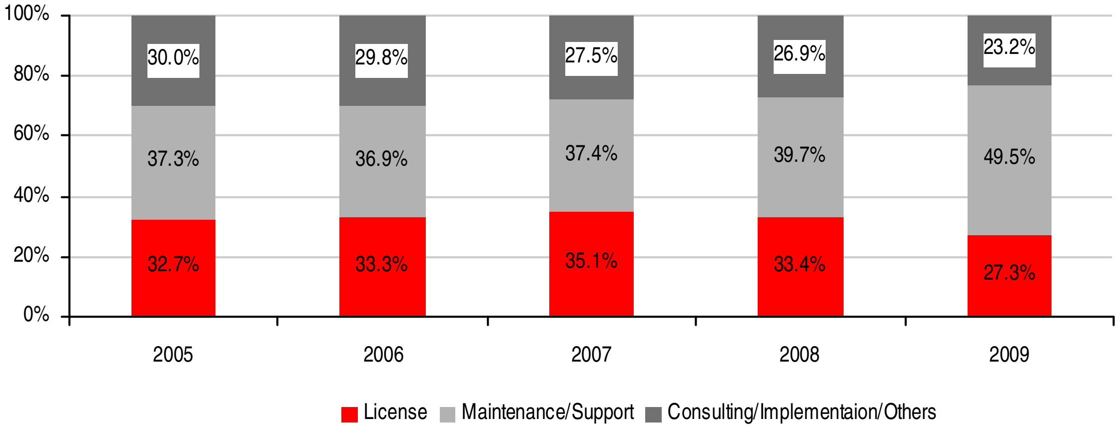
Furthermore, the company derives the majority of its US revenues from the IT services business and our observation of market share gains by the mid-size banks provides opportunity for Polaris to increase its products business in the US as well. The company has already seen demand for its solutions targeting portals, liquidity/payments and hosted on-demand global transaction services.

Product revenue growth should accelerate

As Intellect gains critical mass in terms of its client base, we expect annual maintenance revenues (AMC) to start contributing meaningfully to the total product revenues. Globally, product companies generate a third of total revenues from AMC. Polaris management expects to achieve this benchmark in three years, from negligible contribution currently. Backlog, as illustrated in the following chart, seems to be growing well for the products business and most of the deals signed in 2Q and 3Q FY10, should start contributing to the top-line in 3-6 months.

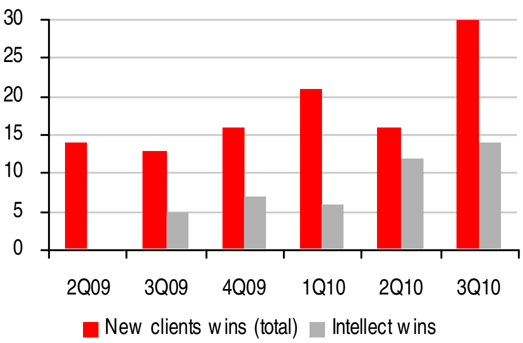
2 Polaris is outsourcing partner for 10 of the top 15 global banks and 6 of the 10 top global insurance companies and include clients such as Citigroup, Lloyds, SEB, Shinsei Bank, Mekong Housing Bank, Saigon Hanoi Bank, Al Hilal Bank, and Deutsche Leasing.

SAP revenue profile (annual maintenance revenues contribute a significant proportion to total revenues of software product cos)



Source: SAP

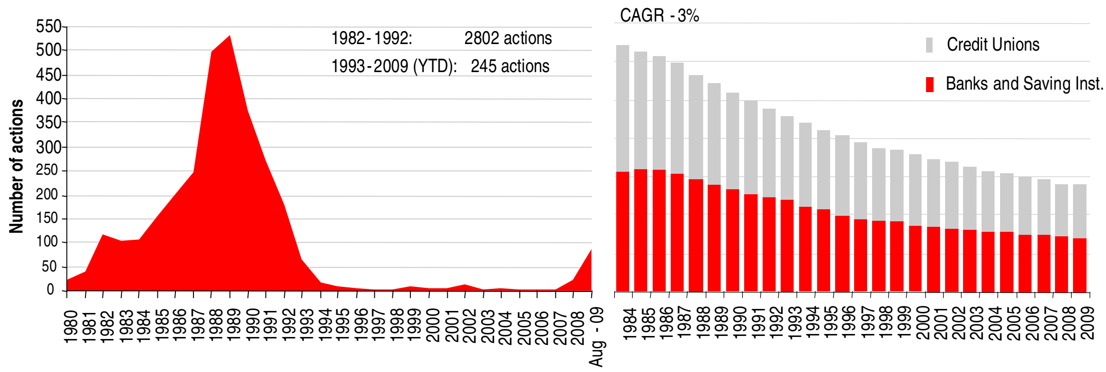
Client wins (backlog for products business is growing consistently)



Source: Polaris

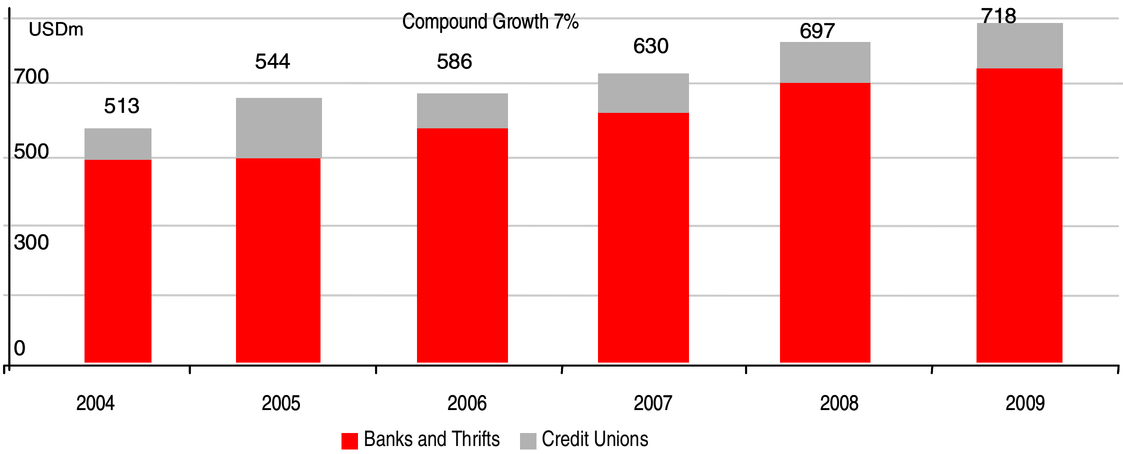
Trends in the BFS market

Consolidation is not new in the banking industry (Left – FDIC take-over actions)



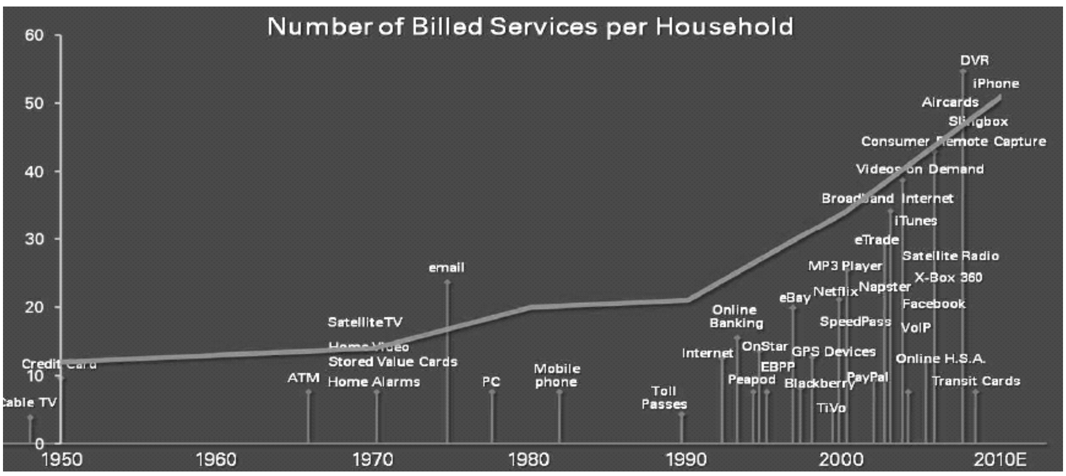
Source: FDIC, Fiserv

But the number of accounts have increased, notwithstanding the number of institutions



Source: FDIC, Fiserv

New technology leads to additional billed services



Source: FDIC, Fiserv

Company profile

Polaris, an IT services company, was founded in 1993 and is focused on solutions and services to the banking and insurance industry. Polaris is one of the outsourcing partners for 10 of the top 15 global banks and 6 of the 10 top global insurance companies.

OrbiTech merger

The company started out as the end-to-end retail banking solution provider for Citibank India and achieved INR1bn in revenue by 2000. The merger with OrbiTech (Citigroup subsidiary) in 2003 was the key event in the history of Polaris; with the merger, it initiated its flagship product Intellect and BPO solution platform Optimus.

The company continued its investments in the Intellect platform and recently launched Global Universal Banking Intellect 10.0, which is designed on the SOA compliant platform.

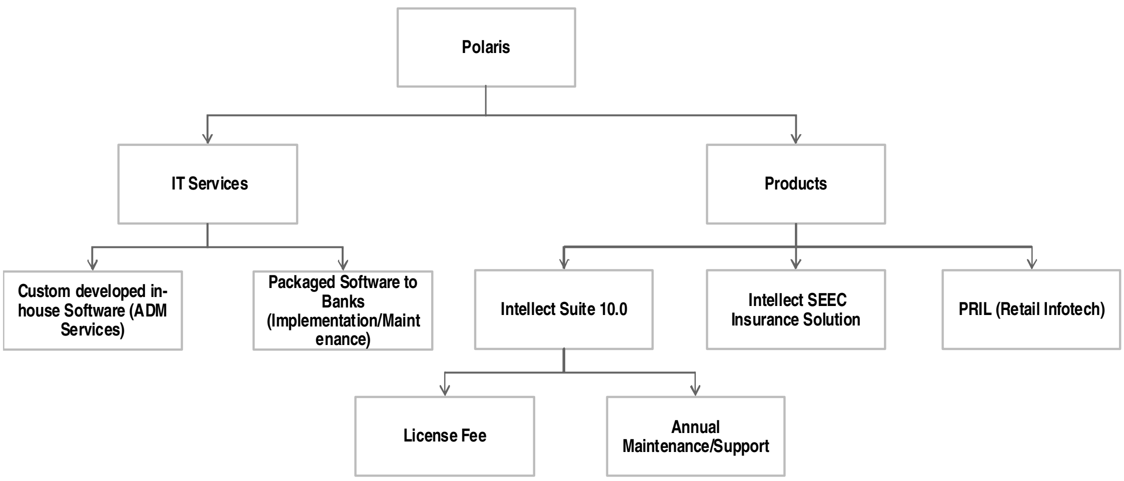
Laser Soft acquisition

Laser Soft is a software product company established in 1986 by Mr. Suresh B Kamath, with focus on developing products for the BFSI sector. The product offerings cover a range of banking operations, include core banking and specialised products like treasury, trade finance, cash management and recon systems. Laser Soft has over 5,000 installations in India and overseas; its clients include Andhra Bank, ICICI Bank, American Express, Punjab National Bank, Canara Bank, Bahrain India International Exchange and Syndicate Bank.

Intellect 10.0 – a closer look

Intellect Universal banking has features addressing most banks' requirements, as discussed below.

Polaris's revenue streams



Source: HSBC

Core banking: Checking, savings, and overdraft accounts, different types of call, recurring, and term deposits. Front office functions relating to teller and customer relationship management are supported, as are back-office functions, such as clearing, funds transfer, standing orders, debit card management, and sweeps.

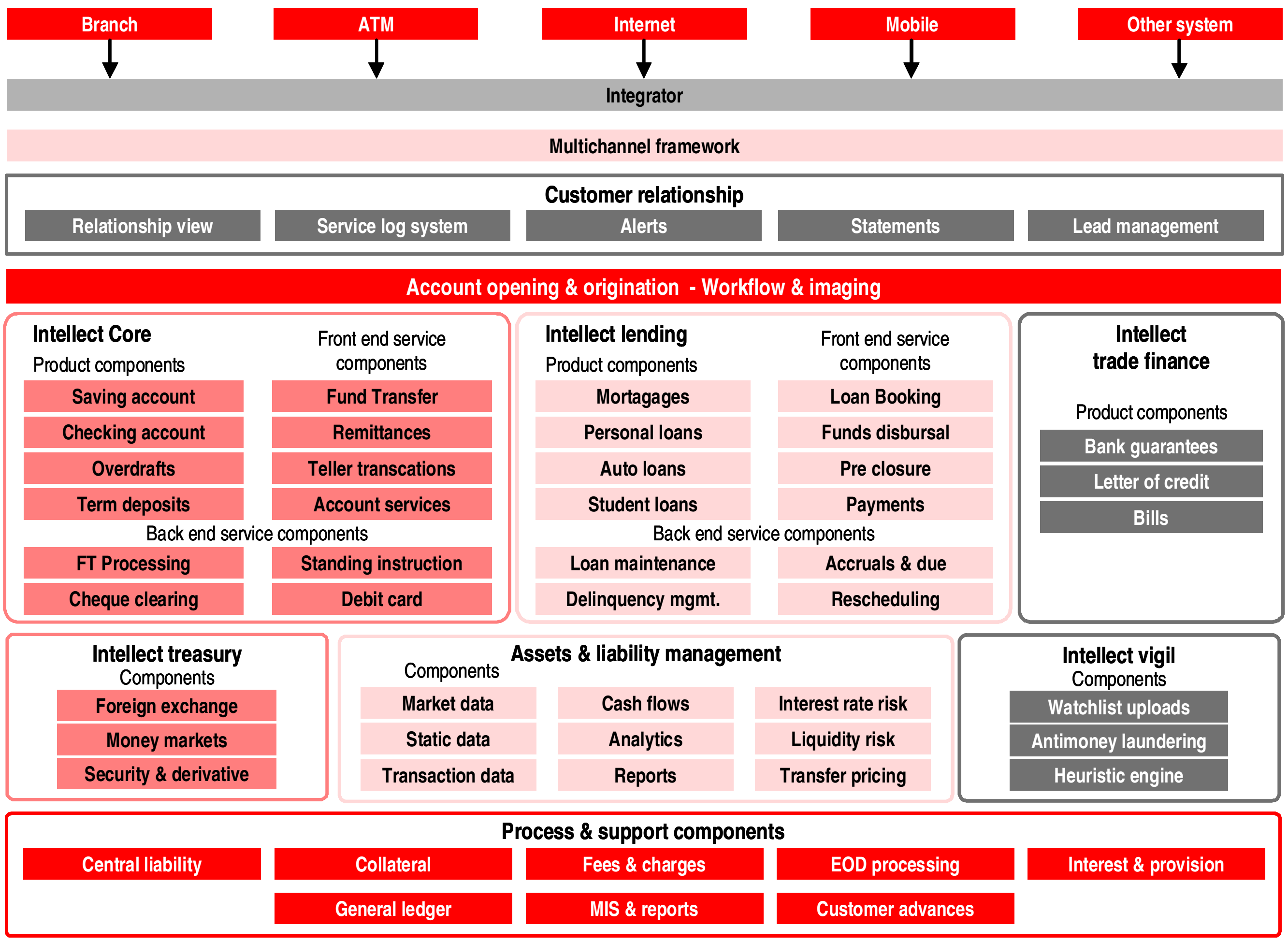
Loans and mortgages: All types of unsecured and secured loans including personal, auto, student, mortgages, securitisation, and syndication are part of this product. The solution has rich functionality around loan processing, flexible repayment schedules, disbursal of loans, customer repayments, partial prepayments, loan rescheduling, changes during the loan life cycle, prepayments, top-up and rollover. It also has a delinquency tracking engine.

Trade finance: Letters of credit, bills, documentary collections, guarantees, supplier/buyer financing, open account solutions and purchase orders.

Treasury: Addresses requirements in the areas of fixed income, forex and money markets, derivatives and risk management.

Internet banking: A consolidated portal addressing retail, SME, commercial, and corporate segments, it supports key functionalities

Intellect Universal Banking 10.0 overview



Source: Polaris

like alerts, fund transfers, debit card transactions, analyser, deposits, exchange rates, check book management, entitlement management, and issue of demand drafts.

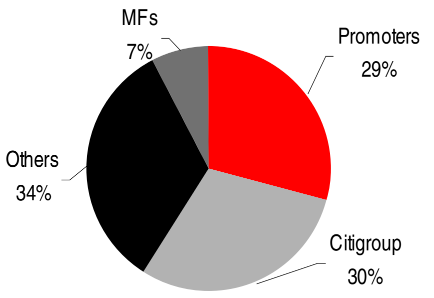
Optimus BPO

Optimus is primarily focusing on the domestic banking clients and has seen a significant ramp-down in the business in the past few quarters. We don't expect a recovery in the business in the near term and forecast decline of 23% in FY11. We won't be surprised to see divestment of this business in the coming quarters.

SEEC

Polaris acquired the SEEC business (US-focused product and component services for the insurance vertical) in September 2008. The company has marquee clients such as New York Life, ICICI Prudential and Mutual of Omaha. SEEC is fully integrated in Polaris and management expects the cross-selling of SEEC products in the Intellect client base to ramp up. SEEC funnel (business opportunities) has grown multi-folded in the past few quarters and revenues should pick up strongly in FY11 as the newly signed deals ramp up.

Shareholding pattern as on Dec 09



Source: Company report, HSBC

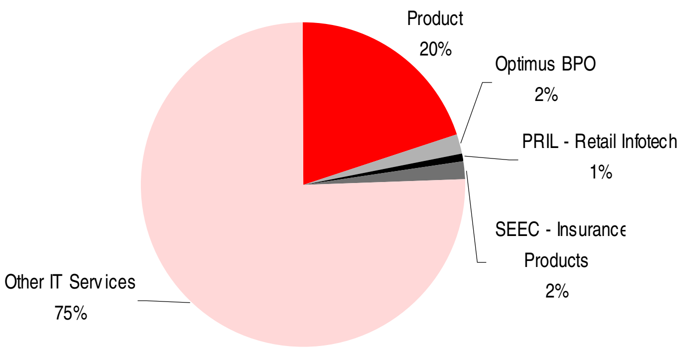
Polaris: Management profile

Name	Designation	Experience
Arin jain	Chairman and CEO	Started the company in 1993. Recipient of the "Indo-ASEAN Business Initiative Award 2008" Conferred "ICICI Venture - CII connect 2006 Entrepreneur Award" for his significant contribution towards developing Tamil Nadu as a centre of information, communications and technology excellence.
Bikash Mathur	Executive VP & Head Polaris Europe	Prior to this, he headed Polaris's business in the APAC region. Holds Masters degree in Business Management from the Wharton School. He was the founder and Managing Partner of Maveric Systems, an independent third party software testing company.
Karthik Kaushik	President Global Sales and Account Management CEO - Polaris Americas	He has extensive experience in strategy and marketing, having cross section of experience across Consumer Goods (Unilever) and Consumer Durables (Paiints) and now Business Technology solutions to Financial Services.
Supriyo Sircar	Executive VP & Regional Head Asia Pacific	More than 20 years of industry experience. Prior to Polaris, he was at Scandent and BMC Software in Asia Holds a B.Tech in Electronics from IIT Kharagpur and MBA from IIM Bangalore.
Srikanth R	CFO	More than 27 years of experience Prior to joining Polaris, he was with Wipro BPO Solutions, as the Associate Chief Operating Officer He is a Chartered Accountant and Cost Accountant.
Govind Singhal	CEO Global Delivery & Operations	Part of first batch who joined company. Instrumental in cementing the relationship with Citibank Responsible for setting up Optimus in 2003. Have more than 23 years of experience in the IT industry and played critical roles in Bank of America and EDS.

Source: Polaris, HSBC

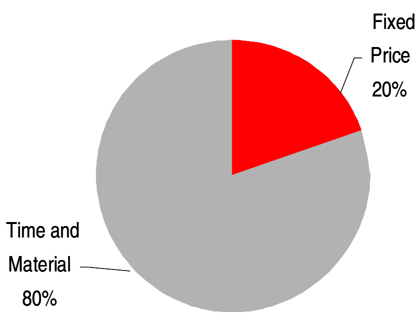
Revenue profile

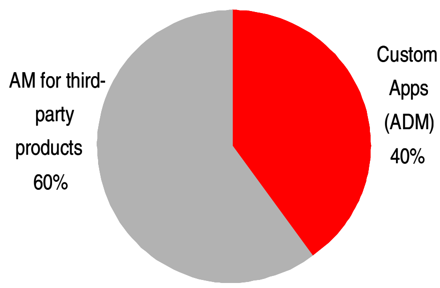
Revenue mix (3Q FY10)



Source: Polaris, HSBC

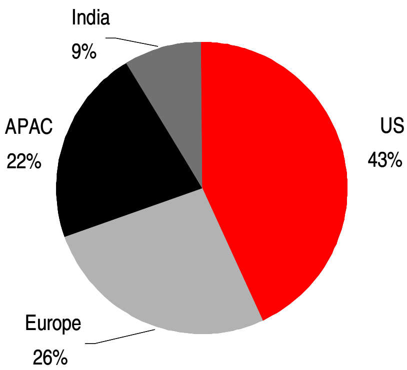
Breakdown of IT services revenue (c80% in 3Q FY10)





Source: Polaris, HSBC

Geography revenue mix (3Q FY10)



Source: Polaris, HSBC

Forecasts and valuation

- We forecast a revenue CAGR of 13.6% FY10-12 and margin dilution of 100bp in FY11 and expansion of 70bp in FY12
- The stock is trading at 8.2x, at a 56% discount to larger peers group and seems undervalued for an EPS CAGR of 19% FY10-12
- We value the company at 11x our FY12e EPS of INR235

Growth estimates

We expect product revenues (intellect driven) to grow at an accelerated pace vs. IT services and constitute 24% of revenues by FY12. As explained in the industry section, the growth should be led by client wins and mining through leveraging of the company's modular product portfolio.

Margin volatility

Profitability has been volatile in the last few quarters, influenced by both operational and non-operational factors (such as currency).

- EBITDA margin peaked to 20% in 3Q FY09, notwithstanding declining volumes, helped by a depreciating currency.

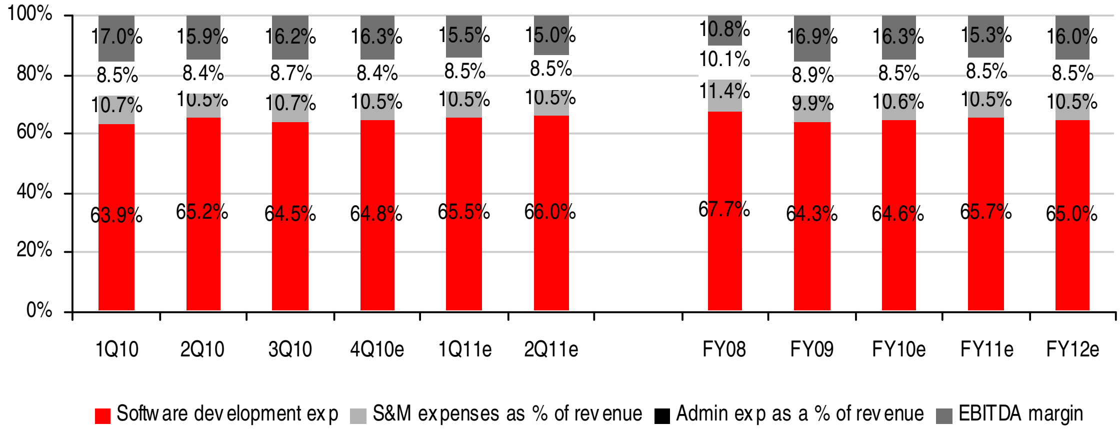
Revenue forecasts/assumptions

Revenue proportion	1Q10	2Q10	3Q10	4Q10e	1Q11e	2Q11e	3Q11e	4Q11e	FY10e	FY11e	FY12e
Product	608	595	682	736	766	796	836	886	2,621	3,284	4,105
Optimus (BPO)	104	94	64	60	60	60	61	62	321	242	254
PRIL (Retail Infotech)	21	26	25	25	25	26	28	29	97	108	129
SEEC (Insurance)	42	40	58	61	63	66	70	74	201	274	329
Other IT Services	2,481	2,628	2,560	2,586	2,663	2,770	2,853	2,967	10,254	11,253	12,603
Total Rev (INRm)	**3,255**	**3,383**	**3,389**	**3,467**	**3,576**	**3,718**	**3,847**	**4,019**	**13,494**	**15,160**	**17,420**
Percentage of revenues											
Product	19%	18%	20%	21%	21%	21%	22%	22%	19%	22%	24%
BPO + IT services	81%	82%	80%	79%	79%	79%	78%	78%	81%	78%	76%
q-o-q growth									y/y	y/y	y/y
Product	-8%	-2%	15%	8%	4%	4%	5%	6%	9%	25%	25%
Optimus (BPO)	0%	-10%	-32%	-7%	0%	0%	2%	2%	0%	-25%	5%
PRIL (Retail Infotech)	0%	25%	-6%	0%	0%	5%	6%	6%	0%	11%	20%
SEEC (Insurance)	0%	-4%	46%	4%	4%	5%	6%	6%	0%	36%	20%
Other IT Services	-9%	6%	-3%	1%	3%	4%	3%	4%	-10%	10%	12%
Total	**-3%**	**4%**	**0%**	**2%**	**3%**	**4%**	**3%**	**4%**	**-2%**	**12%**	**15%**
Revenue Proportion											
Onsite	1,736	1,733	1,691	1,725	1,777	1,830	1,885	1,941	6,885	7,433	8,324
Offshore	1,520	1,650	1,698	1,742	1,800	1,888	1,963	2,077	6,609	7,728	9,095
Total	**3,255**	**3,383**	**3,389**	**3,467**	**3,576**	**3,718**	**3,847**	**4,019**	**13,494**	**15,160**	**17,420**
Onsite	53%	51%	50%	50%	53%	51%	49%	48%	51%	49%	48%
Offshore	47%	49%	50%	50%	47%	49%	51%	52%	49%	51%	52%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: HSBC estimates

HSBC

Operating Model trends



Source: Polaris, HSBC

- From 3Q FY09 until 2Q FY10, the company reduced its headcount by c11%, but still saw EBITDA margin drift from 20% to below 16% (15.9% in 2Q FY10). This reversal could be explained by (a) marginal INR appreciation; (b) a significant decline in volumes in 4Q09 and 1Q10; (c) S&M costs remaining flat in absolute value (cINR350m), despite volume decline; and (d) one-time costs such as visa costs.

Profitability outlook

We expect margin pressure to emerge in FY11, driven by supply side constraints, such as wage inflation and decline in utilisation.

- After the 11% headcount reduction (from 3Q FY09 to 2Q10), Polaris began hiring again in 3Q10. We expect hiring to pick up further and affect utilisation, which is currently reported at peak level of 82% in 3Q10. Sustainable levels of utilisation would remain close to 77-78%.

- Furthermore, wage inflation in 2010 is likely to be broad-based. The company has selectively given increments in 3Q10, but we believe management would have to offer higher salaries across the board in FY11 to retain talent.

Margin levers

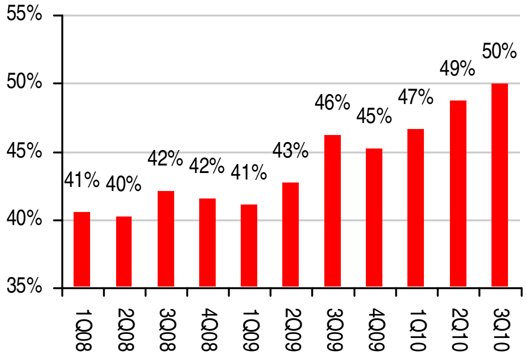
We identify offshore shift of revenues, hiring from campuses, stronger growth in the products business (which is higher margin than IT services) and R&D spend rationalisation to cushion the imminent margin pressure in FY11, albeit partially. The net impact, we assume, would be 100bp on EBITDA margins in FY11.

While margin pressure is likely to be a sector-wide concern in FY11, we believe Polaris is better positioned in the mid-cap sector, to reverse the wage inflation impact. As product revenue growth accelerates, margin pressures should recede as product business is higher margin than the IT services business.

Offshore proportion of revenues

Proportion of revenues from offshore has increased by over 8pps q-o-q to c50% in 2Q FY10. We believe this proportion could move up in the next few quarters, providing downside protection to the margins. We expect the proportion of revenues from offshore to be c52% by the end of FY11 and potential margin cushion of 60-80bp.

Proportion of revenues from offshore



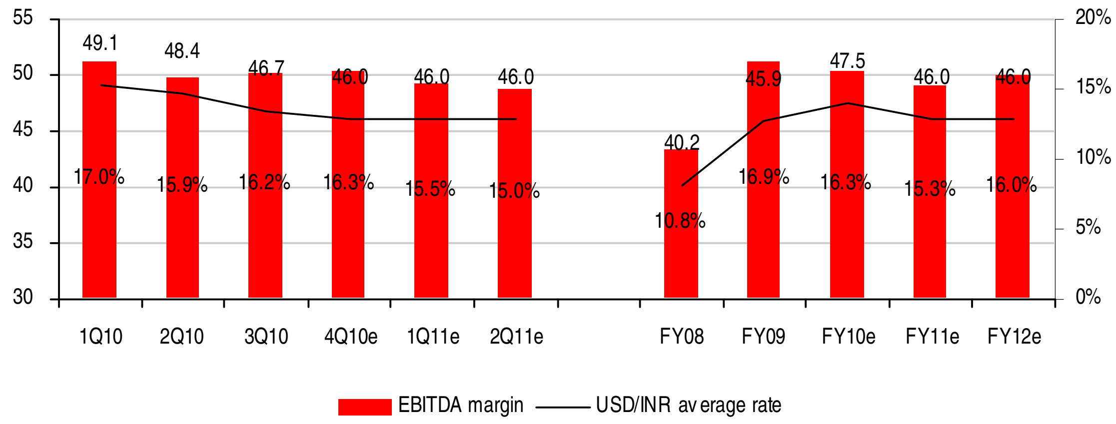
Source: Polaris, HSBC

Hedging turning favourable in FY11e

Polaris has reported significant losses in the past few quarters due to INR depreciation. However, we see losses getting curtailed in the next few quarters and a gain of INR170m in FY11, assuming INR/USD remains at 46. The company has current hedges of USD50m for 3Q and 4Q FY10 at INR45.34 and USD100 at INR48.28, evenly distributed across the four quarters of FY11.

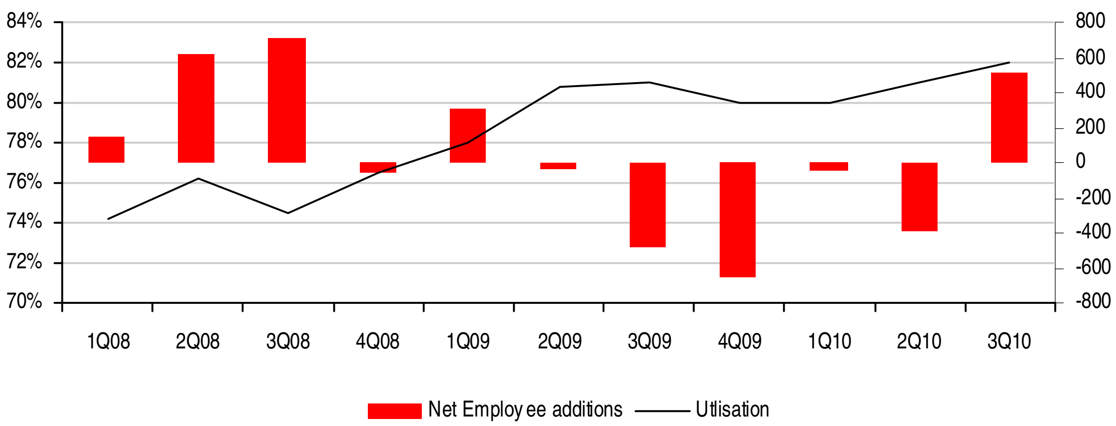
Margin levers limited

EBITDA margin expansion was assisted by INR depreciation



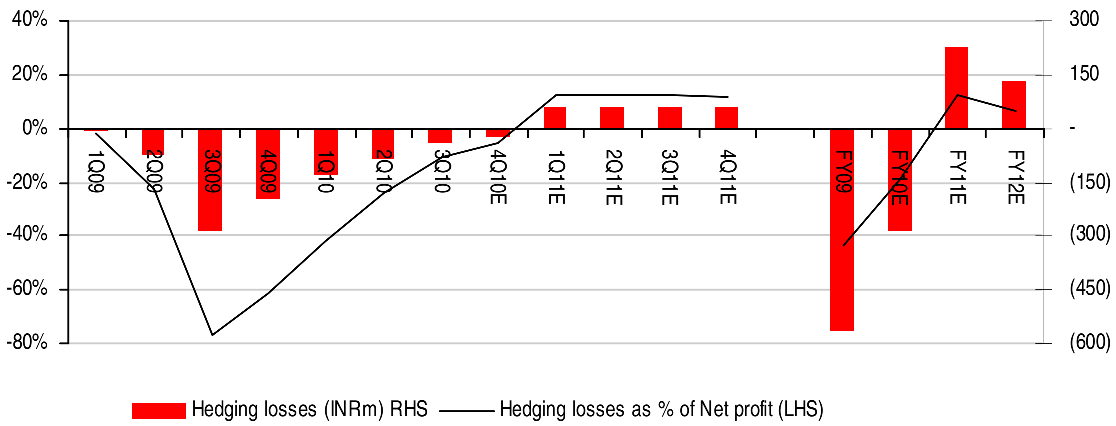
Source: Polaris, HSBC

And decline in headcount, resulting in utilisation improvement



Source: Polaris, HSBC

Hedging (loss)/gain trend



Source: Polaris, HSBC

Valuation

The stock is trading at a PE of 8.2x/7.5x on our FY11/12e EPS. However, we estimate cash per share of INR61and INR73 in FY11e and FY12e. Excluding cash, the stock is trading at a PE of 6x and 5x on FY11/12e EPS.

We initiate with an OW (V) on the stock, with a one-year TP of INR235. At our target price, the stock is valued at a PE of 11x our FY12e EPS. This is at a 50% discount to Infosys and in line with the historic average valuation.

Historically, Polaris has traded at a 50% discount to Infosys and at a c2% discount to its mid-cap peer group. We believe, the company is better positioned today (compared with the past few years), as investments in the Intellect Suite are through and the product is getting traction in the market. In light of these positive developments and strong demand under-currents, we believe the discount of c18% to its mid-cap peers is unwarranted and the stock could re-rate as it continues to deliver on expectations.

Under our research model, for India stocks with a volatility indicator, the Neutral rating band is 10 percentage points above and below the hurdle rate of 10.5%. This translates into a Neutral band of 0.5-20.5% around the current share price. Our target price implies a potential total return of c49% (including dividend yield of c2.5%); thus, we initiate coverage with an Overweight (V) rating on the shares. We validate our multiple-based valuation on fundamental DCF model and get similar results.

DCF valuation

DCF Assumptions

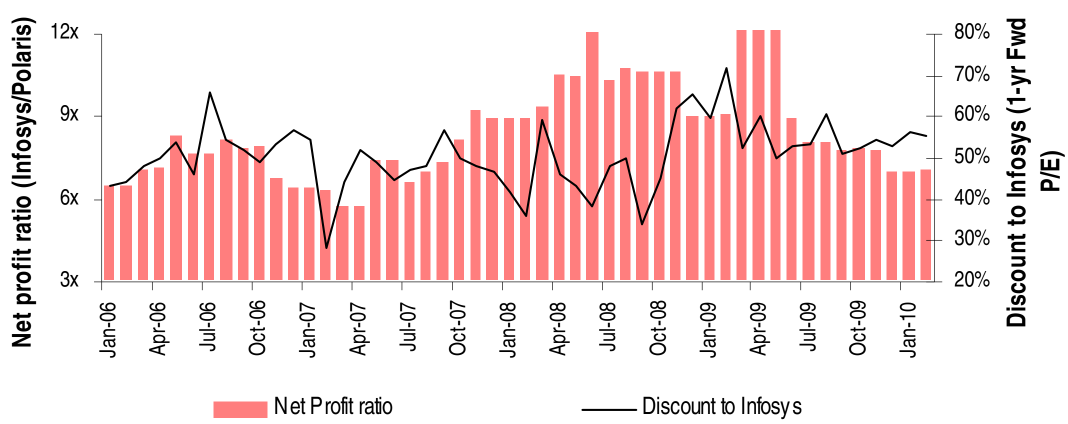
Assumptions	
CAGR revenue growth (FY10-19)	10.2%
Average EBIT margin (FY10-19)	12.1%
WACC	13.8%
Terminal growth	5.0%
Terminal EBIT margin	12%
Terminal working capital/sales	6%
DCF based value/share	**230**

Source: HSBC estimates

Risks to our rating and estimates

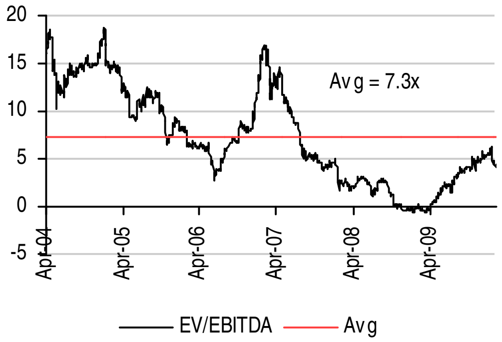
- INR appreciation is a risk to our earnings estimates (please refer the hedging section earlier for our current forecasts/assumptions)
- The company might face significant competitive pressure from the larger companies such as Temenos, Infosys and Oracle Financial Services. We see, SAP also getting better traction in the banking market.

Polaris valuation trends



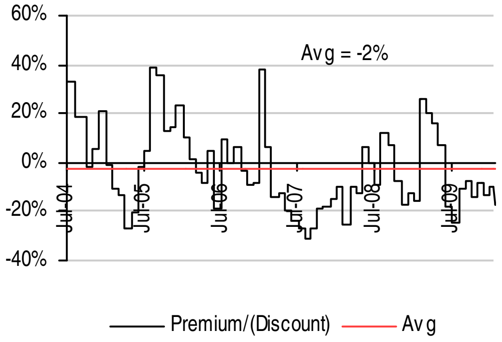
Source: DataStream, company data

One-year forward EV/EBITDA trends



Source: Datastream, HSBC, company report

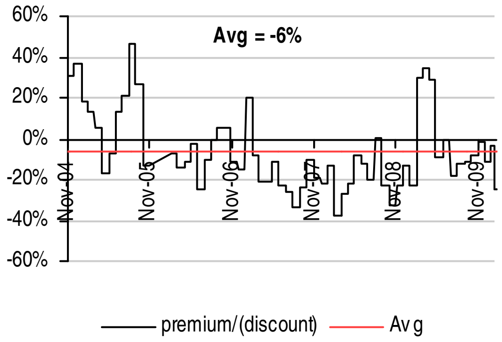
Relative valuation trends (12-mth Fwd PE): Polaris is currently trading at c18% discount to its mid-cap peers



Source: Datastream, HSBC

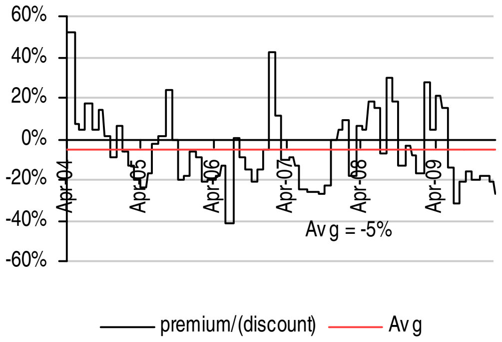
- Our forecasts assume improving market environment, and resulting up-tick in the demand from the banking sector. Weakness in the macro recovery is a risk to our estimates.
- Wage inflation could impact margins more than we have factored in our estimates.

Relative valuation trends (12-mth Fwd PE): Polaris currently trades at a discount of c25% to Infotech compared with 5 year average of 6%



Source: Datastream, HSBC

Relative valuation trends (12-mth Fwd PE): Polaris currently trades at a discount of c27% to Patni compared with 5 year average of 5%



Source: Datastream, HSBC

HSBC

Polaris: Financial statements (Indian GAAP, INRm)

P&L , YE Mar	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
Total Revenues from operations	**8,251**	**10,323**	**10,993**	**13,779**	**13,494**	**15,160**	**17,420**
Software development expenses	5,621	6,583	7,446	8,854	8,716	9,968	11,323
Gross Profit	2,630	3,741	3,547	4,925	4,778	5,192	6,097
Selling & Marketing expenses	817	1,107	1,251	1,368	1,428	1,592	1,829
Administrative and other expenses	1,042	1,021	1,113	1,223	1,146	1,289	1,481
EBITDA	771	1,613	1,182	2,335	2,204	2,312	2,787
Depreciation & amortisation	494	481	460	388	347	389	405
EBIT	**276**	**1,132**	**722**	**1,947**	**1,857**	**1,923**	**2,382**
Other Income	83	62	181	(446)	(99)	386	375
PBT	352	1,186	893	1,506	1,750	2,310	2,757
Tax	131	200	161	208	248	370	634
Share of profits of associates	(8)	24	1	9	(7)	(12)	(10)
Minority interest	-	-	-	-	-	-	-
Net profit	**213**	**1,011**	**733**	**1,307**	**1,495**	**1,928**	**2,113**
EPS							
Basic	2.2	10.3	7.4	13.2	15.2	19.6	21.5
Diluted	2.2	10.2	7.4	13.2	15.2	19.6	21.5
Dividend (total)	123	222	148	271	299	386	423
Dividend /share	1.3	2.3	1.5	2.8	3.0	3.9	4.3
Div payout ratio	58%	22%	20%	21%	20%	20%	20%
Gross Margin	31.9%	36.2%	32.3%	35.7%	35.4%	34.3%	35.0%
EBITDA margin	9.3%	15.6%	10.8%	16.9%	16.3%	15.3%	16.0%
EBIT margin	3.4%	11.0%	6.6%	14.1%	13.8%	12.7%	13.7%
PAT margin	2.6%	9.8%	6.7%	9.5%	11.1%	12.7%	12.1%
Tax Rate	37.4%	16.8%	18.0%	13.8%	14.1%	16.0%	23.0%
Balance Sheet	**FY06**	**FY07**	**FY08**	**FY09**	**FY10E**	**FY11E**	**FY12E**
Total shareholders equity	5,410	6,015	6,575	7,727	8,779	10,078	11,565
Secured Loans	34	13	8	4	31	31	31
Unsecured Loans	-	-	-	66	67	67	67
Total Liabilities	**5,443**	**6,033**	**6,652**	**7,796.5**	**8,878**	**10,176**	**11,663**
Fixed Assets	2,376	2,231	2,133	2,157	2,203	2,269	2,387
Goodwill	-	-	-	199	501	501	501
Cash and bank balances	1,015	930	768	3,400	5,212	6,095	7,335
Sundry debtors	1,381	1,801	2,104	2,031	2,659	2,907	3,341
Loans and advances	1,467	2,186	2,445	2,325	874	874	874
Current liabilities & provisions	1,153	1,529	1,848	2,509	2,799	2,654	2,948
Total Assets	**5,443**	**6,033**	**6,652**	**7,796.5**	**8,878**	**10,176**	**11,663**
Cash Flow	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
Cash Flow From Operating Activities							
PBT (incl associate income)	345	1,210	893	1,516	1,742	2,298	2,747
Depreciation	494	481	460	505	347	389	405
Interest and dividend income	(21)	(31)	(44)	(112)	(119)	(208)	(244)
Exchange differences	(0)	44	(48)	(85)	40	(178)	(131)
Change in working capital	63	(913)	(196)	931	845	(362)	(140)
(Increase)/ decrease in sundry debtors	(19)	(453)	(273)	23	477	(248)	(433)
(Increase)/decrease in loans & advences	19	(694)	(200)	208	448	-	-
Increase/(decrease) in current liabilities	64	235	277	701	(79)	(114)	293
Income taxes	(179)	(223)	(245)	(301)	(269)	(370)	(634)
Net operating cash flow	**799**	**555**	**843**	**2,421**	**2,573**	**1,581**	**2,013**
Cash Flow From Investing Activities							
Capital expenditure	(356)	(720)	(390)	(355)	(250)	(455)	(523)
Acquisition of subsidiary	-	-	-	(370)	(344)	-	-
Net investing cash flow	**(365)**	**(392)**	**(895)**	**401**	**(474)**	**(246)**	**(279)**
Cash Flow From Financing Activities							
Issue of share capital	35	15	8	0	34	-	-
Change in secured loan	(21)	(20)	(5)	(5)	-	-	-
dividend paid	(268)	(219)	(124)	(344)	(350)	(451)	(494)
Net financing cash flow	(256)	(229)	(122)	(349)	(316)	(451)	(494)
Net increase (decrease) in cash	212	(84)	(163)	2,632	1,812	883	1,240
Opening cash balance	803	1,015	930	767	3,400	5,212	6,095
Closing cash balance	**1,015**	**930**	**767**	**3,400**	**5,212**	**6,095**	**7,335**

Source: HSBC, Company report

HSBC

HSBC Global Research website

To maximise your access to HSBC Global Research please visit our website at www.research.hsbc.com where you can:

- View the latest research and access archived reports
- Visit the dedicated product pages, including Emerging Markets and Climate Change
- Filter estimates for more than 1,000 companies under equity coverage
- Set up personal filters to put your research interests at your fingertips
- Look up HSBC research analyst contact details

E-mail subscriptions

You can receive research directly via e-mail as soon as it is published. To set up subscriptions to research reports, contact your Relationship Manager.

If you are having problems or need assistance with the website service, please contact your HSBC Relationship Manager or e-mail: ecare@hsbcib.com.

http://www.research.hsbc.com

HSBC

Disclosure appendix

Analyst Certification

The following analyst(s), economist(s), and/or strategist(s) who is(are) primarily responsible for this report, certifies(y) that the opinion(s) on the subject security(ies) or issuer(s) and/or any other views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Yogesh Aggarwal and Anil Kumar T

Important disclosures

Stock ratings and basis for financial analysis

HSBC believes that investors utilise various disciplines and investment horizons when making investment decisions, which depend largely on individual circumstances such as the investor's existing holdings, risk tolerance and other considerations. Given these differences, HSBC has two principal aims in its equity research: (1) to identify long-term investment opportunities based on particular themes or ideas that may affect the future earnings or cash flows of companies on a 12-month horizon; and (2) from time to time to identify short-term investment opportunities that are derived from fundamental, quantitative, technical or event-driven techniques on a 0- to 3-month horizon and which may differ from our long-term investment rating. HSBC has assigned ratings for its long-term investment opportunities as described below.

This report addresses only the long-term investment opportunities of the companies referred to in the report. As and when HSBC publishes a short-term trading idea the stocks to which these relate are identified on the website at www.hsbcnet.com/research. Details of these short-term investment opportunities can be found under the Reports section of this website.

HSBC believes an investor's decision to buy or sell a stock should depend on individual circumstances such as the investor's existing holdings and other considerations. Different securities firms use a variety of ratings terms as well as different rating systems to describe their recommendations. Investors should carefully read the definitions of the ratings used in each research report. In addition, because research reports contain more complete information concerning the analysts' views, investors should carefully read the entire research report and should not infer its contents from the rating. In any case, ratings should not be used or relied on in isolation as investment advice.

Rating definitions for long-term investment opportunities

Stock ratings

HSBC assigns ratings to its stocks in this sector on the following basis:

For each stock we set a required rate of return calculated from the risk free rate for that stock's domestic, or as appropriate, regional market and the relevant equity risk premium established by our strategy team. The price target for a stock represents the value the analyst expects the stock to reach over our performance horizon. The performance horizon is 12 months. For a stock to be classified as Overweight, the implied return must exceed the required return by at least 5ppt over the next 12 months (or 10ppt for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock must be expected to underperform its required return by at least 5ppt over the next 12 months (or 10ppt for a stock classified as Volatile*). Stocks between these bands are classified as Neutral.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation of coverage, change of volatility status or change in price target). Notwithstanding this, and although ratings are subject to ongoing management review, expected returns will be permitted to move outside the bands as a result of normal share price fluctuations without necessarily triggering a rating change.

*A stock will be classified as volatile if its historical volatility has exceeded 40%, if the stock has been listed for less than 12 months (unless it is in an industry or sector where volatility is low) or if the analyst expects significant volatility. However, stocks which we do not consider volatile may in fact also behave in such a way. Historical volatility is defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility has to move 2.5ppt past the 40% benchmark in either direction for a stock's status to change.

Prior to this, from 7 June 2005 HSBC applied a ratings structure which ranked the stocks according to their notional target price vs current market price and then categorised (approximately) the top 40% as Overweight, the next 40% as Neutral and the last 20% as Underweight. The performance horizon is two years. The notional target price was defined as the midpoint of the analysts' valuation for a stock.

From 15 November 2004 to 7 June 2005, HSBC carried no ratings and concentrated on long-term thematic reports which identified themes and trends in industries, but did not make a conclusion as to the investment action that potential investors should take.

Prior to 15 November 2004, HSBC's ratings system was based upon a two-stage recommendation structure: a combination of the analysts' view on the stock relative to its sector and the sector call relative to the market, together giving a view on the stock relative to the market. The sector call was the responsibility of the strategy team, set in co-operation with the analysts. For other companies, HSBC showed a recommendation relative to the market. The performance horizon was 6-12 months. The target price was the level the stock should have traded at if the market accepted the analysts' view of the stock.

Rating distribution for long-term investment opportunities

As of 12 February 2010, the distribution of all ratings published is as follows:

Overweight (Buy)	46%	(12% of these provided with Investment Banking Services)
Neutral (Hold)	38%	(12% of these provided with Investment Banking Services)
Underweight (Sell)	16%	(11% of these provided with Investment Banking Services)

HSBC & Analyst disclosures

None of the below disclosures applies to any of the stocks featured in this report.

1 HSBC* has managed or co-managed a public offering of securities for this company within the past 12 months.
2 HSBC expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
3 At the time of publication of this report, HSBC Securities (USA) Inc. is a Market Maker in securities issued by this company.
4 As of 31 January 2010 HSBC beneficially owned 1% or more of a class of common equity securities of this company.
5 As of 31 December 2009, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of investment banking services.
6 As of 31 December 2009, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-investment banking-securities related services.
7 As of 31 December 2009, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-securities services.
8 A covering analyst/s has received compensation from this company in the past 12 months.
9 A covering analyst/s or a member of his/her household has a financial interest in the securities of this company, as detailed below.
10 A covering analyst/s or a member of his/her household is an officer, director or supervisory board member of this company, as detailed below.
11 At the time of publication of this report, HSBC is a non-US Market Maker in securities issued by this company and/or in securities in respect of this company

Analysts, economists, and strategists are paid in part by reference to the profitability of HSBC which includes investment banking revenues.

For disclosures in respect of any company mentioned in this report, please see the most recently published report on that company available at www.hsbcnet.com/research.

** HSBC Legal Entities are listed in the Disclaimer below.*

Additional disclosures

1 This report is dated as at 12 February 2010.

2 All market data included in this report are dated as at close 11 February 2010, unless otherwise indicated in the report.

3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.

HSBC

Disclaimer

** Legal entities as at 22 October 2008*
'UAE' HSBC Bank Middle East Limited, Dubai; 'HK' The Hongkong and Shanghai Banking Corporation Limited, Hong Kong; 'TW' HSBC Securities (Taiwan) Corporation Limited; 'CA' HSBC Securities (Canada) Inc, Toronto; HSBC Bank, Paris branch; HSBC France; 'DE' HSBC Trinkaus & Burkhardt AG, Dusseldorf; 000 HSBC Bank (RR), Moscow; 'IN' HSBC Securities and Capital Markets (India) Private Limited, Mumbai; 'JP' HSBC Securities (Japan) Limited, Tokyo; 'EG' HSBC Securities Egypt S.A.E., Cairo; 'CN' HSBC Investment Bank Asia Limited, Beijing Representative Office; The Hongkong and Shanghai Banking Corporation Limited, Singapore branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch; HSBC Securities (South Africa) (Pty) Ltd, Johannesburg; 'GR' HSBC Pantelakis Securities S.A., Athens; HSBC Bank plc, London, Madrid, Milan, Stockholm, Tel Aviv, 'US' HSBC Securities (USA) Inc, New York; HSBC Yatirim Menkul Degerler A.S., Istanbul; HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, HSBC Bank Brasil S.A. – Banco Múltiplo, HSBC Bank Australia Limited, HSBC Bank Argentina S.A., HSBC Saudi Arabia Limited.

Issuer of report
HSBC Securities and Capital Markets (India) Private Limited
Registered Office
52/60 Mahatma Gandhi Road
Fort, Mumbai 400 001, India
Telephone: +91 22 2267 4921
Fax: +91 22 2263 1983
Website: www.research.hsbc.com

This document has been issued by HSBC Securities and Capital Markets (India) Private Limited ("HSBC") for the information of its customers only. HSBC Securities and Capital Markets (India) Private Limited is regulated by the Securities and Exchange Board of India. If it is received by a customer of an affiliate of HSBC, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate. This document is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. HSBC has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; HSBC makes no guarantee, representation or warranty and accepts no responsibility or liability as to its accuracy or completeness. Expressions of opinion are those of the Research Division of HSBC only and are subject to change without notice. HSBC and its affiliates and/or their officers, directors and employees may have positions in any securities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such securities (or investment). HSBC and its affiliates may act as market maker or have assumed an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform investment banking or underwriting services for or relating to those companies and may also be represented in the supervisory board or any other committee of those companies. The information and opinions contained within the research reports are based upon publicly available information and rates of taxation applicable at the time of publication which are subject to change from time to time. Past performance is not necessarily a guide to future performance. The value of any investment or income may go down as well as up and you may not get back the full amount invested. Where an investment is denominated in a currency other than the local currency of the recipient of the research report, changes in the exchange rates may have an adverse effect on the value, price or income of that investment. In case of investments for which there is no recognised market it may be difficult for investors to sell their investments or to obtain reliable information about its value or the extent of the risk to which it is exposed.

HSBC Securities (USA) Inc. accepts responsibility for the content of this research report prepared by its non-US foreign affiliate. All U.S. persons receiving and/or accessing this report and wishing to effect transactions in any security discussed herein should do so with HSBC Securities (USA) Inc. in the United States and not with its non-US foreign affiliate, the issuer of this report.

In the UK this report may only be distributed to persons of a kind described in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001. The protections afforded by the UK regulatory regime are available only to those dealing with a representative of HSBC Bank plc in the UK. In Singapore, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch for the general information of institutional investors or other persons specified in Sections 274 and 304 of the Securities and Futures Act (Chapter 289) ("SFA") and accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the SFA. This publication is not a prospectus as defined in the SFA. It may not be further distributed in whole or in part for any purpose. The Hongkong and Shanghai Banking Corporation Limited Singapore Branch is regulated by the Monetary Authority of Singapore. In Australia, this publication has been distributed by The Hongkong and Shanghai Banking Corporation Limited (ABN 65 117 925 970, AFSL 301737) for the general information of its "wholesale" customers (as defined in the Corporations Act 2001). Where distributed to retail customers, this research is distributed by HSBC Bank Australia Limited (AFSL No. 232595). These respective entities make no representations that the products or services mentioned in this document are available to persons in Australia or are necessarily suitable for any particular person or appropriate in accordance with local law. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient.

In Japan, this publication has been distributed by HSBC Securities (Japan) Limited. In Hong Kong, this document has been distributed by The Hongkong and Shanghai Banking Corporation Limited in the conduct of its Hong Kong regulated business for the information of its institutional and professional customers; it is not intended for and should not be distributed to retail customers in Hong Kong. The Hongkong and Shanghai Banking Corporation Limited makes no representations that the products or services mentioned in this document are available to persons in Hong Kong or are necessarily suitable for any particular person or appropriate in accordance with local law. All inquiries by such recipients must be directed to The Hongkong and Shanghai Banking Corporation Limited.

© Copyright. HSBC Securities and Capital Markets (India) Private Limited 2010, ALL RIGHTS RESERVED. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of HSBC Securities and Capital Markets (India) Private Limited. MICA (P) 177/08/2009

[259893]

Global Telecoms, Media & Technology Research Team

Global

Stephen Howard
Analyst, Global Sector Head
+44 20 7991 6820 stephen.howard@hsbcib.com

Europe

Dominik Klarmann
Analyst
+49 211 910 3720 dominik.klarmann@hsbc.de

Nicolas Cote-Colisson
Analyst
+44 20 7991 6826 nicolas.cote-colisson@hsbcib.com

Luigi Minerva
Analyst
+44 20 7991 6928 luigi.minerva@hsbcib.com

Manish Beria, CFA
Analyst
+91 80 3001 3796 manishberia@hsbc.co.in

Amit Sachdeva
Analyst
+91 80 3001 3795 amit1sachdeva@hsbc.co.in

Dhiraj Saraf, CFA
Analyst
+91 80 3001 3773 dhirajsaraf@hsbc.co.in

Sunil Rajgopal
Analyst
+91 80 3001 3794 sunilrajgopal@hsbc.co.in

Americas

Richard Dineen
Analyst
+1 212 525 6707 richard.dineen@us.hsbc.com

Sub-Saharan Africa

Umulinga Karangwa
Analyst
+44 20 7992 3685 umulinga.karangwa@hsbcib.com

Global Emerging Markets (GEMs)

Hervé Drouet
Analyst
+44 20 7991 6827 herve.drouet@hsbcib.com

Emerging Europe, Middle East & Africa (EMEA)

Kunal Bajaj
Analyst
+971 4507 7200 kunalbajaj@hsbc.com

Vangelis Karanikas
Analyst
+30 210 696 5211 vangelis.karanikas@hsbc.com

Avshalom Shimei
Analyst
+972 3 710 1197 avshalomshimei@hsbc.com

Bülent Yurdagül
Analyst
+90 212 376 46 12 bulentyurdagul@hsbc.com.tr

Sergey Fedoseev
Analyst
+44 20 7991 6831 sergey.fedoseev@hsbcib.com

Specialist Sales

Timothy Maunder-Taylor
+44 20 7991 5006 tim.maunder-taylor@hsbcib.com

Thomas Koenen
+49 211 910 4402 thomas.koenen@trinkaus.de

Myles McMahon
+852 2822 4676 mylesmacmahon@hsbc.com.hk

Asia

Steven C Pelayo
Analyst
+852 2822 4391 stevenpelayo@hsbc.com.hk

Tse-yong Yao
Analyst
+852 2822 4397 tse-yongyao@hsbc.com.hk

Nam Park
Analyst
+852 2996 6591 nampark@hsbc.com.hk

Carolyn Poon
Analyst
+852 2996 6586 carolynpoon@hsbc.com.hk

Tucker Grinnan
Analyst
+852 2822 4686 tuckergrinnan@hsbc.com.hk

Walden Shing
Analyst
+852 2996 6751 waldenshing@hsbc.com.hk

Neale Anderson
Analyst
+852 2996 6716 neale.anderson@hsbc.com.hk

Henry Lee
Associate
+813 5203 4412 henry.lee@hsbc.co.jp

Wanli Wang
Analyst
+8862 8725 6020 wanliwang@hsbc.com.tw

Shishir Singh
+852 2822 4292 shishirkumarsingh@hsbc.com.hk

Frank Su
Analyst
+8862 8725 6025 frankkssu@hsbc.com.tw

Eileen Yang
Associate
+8862 8725 6021 eileensjyang@hsbc.com.tw

Percy Panthaki
Analyst
+91 22 2268 1240 percypanthaki@hsbc.co.in

Rajiv Sharma
Analyst
+91 22 2268 1239 rajivsharma@hsbc.co.in

Yogesh Aggarwal
Analyst
+91 22 2268 1246 yogeshaggarwal@hsbc.co.in

Anil Kumar T
Analyst
+91 80 3001 3749 anil.kumar.tulsiram@hsbc.co.in

Suran Seong
Analyst
+822 3706 8753 suranseong@kr.hsbc.com

Yolanda Wang
Analyst
+8862 8725 6027 yolandayywang@hsbc.com.tw

Joyce Chen
Associate
+8862 8725 6022 joycechchen@hsbc.com.tw